

**REPORT OF THE AUDIT OF THE
HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

August 5, 2004



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Joseph Grieshop, Harlan County Judge/Executive

Honorable Steve Duff, Harlan County Sheriff

Members of the Harlan County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Harlan County Sheriff's Settlement - 2003 Taxes as of August 5, 2004.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Harlan County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

August 5, 2004

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY
Telephone (502) 499-9088
Facsimile (502) 499-9132

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

August 5, 2004

Ross & Company, PLLC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Harlan County Sheriff as of August 5, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$7,611,744 for the districts for 2003 taxes, retaining commissions of \$317,083 to operate the Sheriff's office. The Sheriff distributed taxes of \$7,293,330 to the districts for 2003 Taxes. Refunds of \$519 are due to the Sheriff from the taxing districts.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT – 2003 TAXES.....	3
NOTES TO FINANCIAL STATEMENT	5
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	9

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Independent Auditor's Report

We have audited the Harlan County Sheriff's Settlement - 2003 Taxes as of August 5, 2004. This tax settlement is the responsibility of the Harlan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Harlan County Sheriff's taxes charged, credited, and paid as of August 5, 2004, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Joseph Grieshop, Harlan County Judge/Executive

Honorable Steve Duff, Harlan County Sheriff

Members of the Harlan County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 22, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
October 22, 2004

HARLAN COUNTY
STEVE DUFF, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

August 5, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,259,619	\$ 665,192	\$ 1,588,529	\$ 627,450
Tangible Personal Property	454,813	214,479	489,831	521,180
Intangible Personal Property				84,362
Fire Protection	7,075			
Franchise Corporation	250,639	120,622	266,754	
Additional Billings	1,588	839	1,874	791
Unmined Coal - 2003 Taxes	397,070	209,715	600,661	198,530
Oil and Gas Property Taxes	38,241	20,195	57,576	19,049
Limestone, Sand, and Mineral Reserves	511	270	770	255
Bank Franchises	71,487			
Penalties	15,754	8,222	20,225	8,809
Adjusted to Sheriff's Receipt	11	44		
Gross Chargeable to Sheriff	<u>\$ 2,496,808</u>	<u>\$ 1,239,578</u>	<u>\$ 3,026,220</u>	<u>\$ 1,460,426</u>
<u>Credits</u>				
Exonerations	\$ 23,348	\$ 11,693	\$ 31,212	\$ 19,224
Discounts	33,904	16,668	40,984	22,441
Delinquents:				
Real Estate	102,561	54,162	135,814	51,100
Tangible Personal Property	15,430	7,276	18,604	18,773
Intangible Personal Property				883
Uncollected Franchise	2,743	1,294	3,174	
Total Credits	<u>\$ 177,986</u>	<u>\$ 91,093</u>	<u>\$ 229,788</u>	<u>\$ 112,421</u>
Taxes Collected	\$ 2,318,822	\$ 1,148,485	\$ 2,796,432	\$ 1,348,005
Less: Commissions *	<u>98,837</u>	<u>48,811</u>	<u>111,857</u>	<u>57,578</u>
Taxes Due	\$ 2,219,985	\$ 1,099,674	\$ 2,684,575	\$ 1,290,427
Taxes Paid	2,219,365	1,099,448	2,795,959	1,290,400
Commissions Refunded from School			111,842	
Refunds (Current and Prior Year)	<u>684</u>	<u>331</u>	<u>694</u>	<u>141</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (64)</u>	<u>\$ (105)</u>	<u>\$ (236)</u>	<u>\$ (114)</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY
 STEVE DUFF, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2003 TAXES
 August 5, 2004
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	4,805,312
4% on	\$	2,796,432

** Special Taxing Districts:

Library District	\$	(35)
Health District		(22)
Extension District		(42)
Soil Conservation		<u>(6)</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>(105)</u></u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT

August 5, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 5, 2004, the Sheriff's deposits were fully collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
August 5, 2004
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 23, 2003, through June 30, 2004.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2003. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 26, 2004, through August 5, 2004.

Note 4. Interest Income

The Harlan County Sheriff earned \$6,263 as interest income on 2003 taxes. As of October 22, 2004, the Sheriff owed \$5 in interest to the school district and \$51 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Harlan County Sheriff collected \$34,755 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Harlan County Sheriff collected \$992 of advertising costs and \$5,710 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.090, effective through June 23, 2003, property is presumed abandoned after seven years, after which time it is to be turned over to the Kentucky State Treasurer. After KRS 393.090 was amended, effective June 24, 2003, property is presumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer, in accordance with KRS 393.110. For the 2003 taxes, the Sheriff had \$858 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROSS & COMPANY, PLLC
Certified Public Accountants
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Facsimile (502) 499-9132

The Honorable Joseph Grieshop, Harlan County Judge/Executive
The Honorable Steve Duff, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Harlan County Sheriff's Settlement - 2003 Taxes as of August 5, 2004, and have issued our report thereon dated October 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Harlan County Sheriff's Settlement - 2003 Taxes as of August 5, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

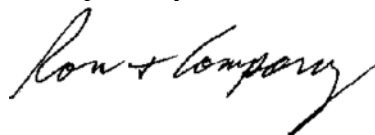
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harlan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
October 22, 2004

